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Annual Report

**COSMOS
IMPERIAL
MILLS,
LIMITED**

1969

1969 ANNUAL REPORT

**COSMOS IMPERIAL
MILLS, LIMITED**

and its wholly owned subsidiaries

J. SPENCER TURNER CO. LIMITED

and

YARMOUTH INDUSTRIAL FABRICS LIMITED

DIRECTORS

Residence

DONALD M. CAIN

YARMOUTH, NOVA SCOTIA

Vice-President and Resident Director, Cosmos Imperial Mills, Limited

WILLIAM J. CHEESMAN

BURLINGTON, ONTARIO

President, Canadian Westinghouse Company, Limited

RONALD K. FRASER

HAMILTON, ONTARIO

President and Chief Executive Officer, Fleet Manufacturing Limited

E. DOUGLAS JAMES

ANCASTER, ONTARIO

President, Cosmos Imperial Mills, Limited

ROBERT N. STEINER

ANCASTER, ONTARIO

Senior Vice-President, A. E. Ames & Co. Limited

ALAN V. YOUNG

HAMILTON, ONTARIO

Chairman of the Board, The Hamilton Cotton Company, Limited

WILLIAM H. YOUNG

ANCASTER, ONTARIO

Chairman of the Board, Cosmos Imperial Mills, Limited

OFFICERS

WILLIAM H. YOUNG
Chairman of the Board

E. DOUGLAS JAMES
President and Chief Executive Officer

GORDON B. LAWRENCE
Senior Vice-President

DONALD M. CAIN
Vice-President and Resident Director

G. HOWARD PULLAM
Vice-President, Sales

PAUL A. SOUTHALL, C.A.
Vice-President, Finance
and Secretary-Treasurer

LEGAL COUNSEL

EVANS, RUTTY AND HUSBAND HAMILTON, ONTARIO

AUDITORS

CLARKSON, GORDON & CO. HAMILTON, ONTARIO

STOCK TRANSFER AGENTS

THE ROYAL TRUST COMPANY TORONTO, ONTARIO

REGISTRARS

THE BANKERS' TRUST COMPANY TORONTO, ONTARIO

HEAD OFFICE

HAMILTON, ONTARIO

MILLS

HAMILTON, ONTARIO

AJAX, ONTARIO

TRENTON, ONTARIO

MARYSVILLE, NEW BRUNSWICK

YARMOUTH, NOVA SCOTIA

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FORTY-FOURTH ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 1969

TO THE SHAREHOLDERS

Your Directors are pleased to submit the forty-fourth annual report and financial statements for the year ended December 31, 1969.

BUSINESS CONDITIONS

Sales in 1969 were \$14,805,564. This reflects the additional operations acquired from The Hamilton Cotton Company, Limited in March, 1969. Due to this change, further comparisons with prior years are not meaningful.

At the time of writing, the Federal Government has still not announced its long-awaited policy for the textile industry. The industry continues to press for a policy limiting the imports from low-wage countries. The disruptive effect of these imports has created serious difficulties for many manufacturing industries in Canada.

Most of our products were under severe price pressure from imports during the year. In many cases, imports of finished products have also displaced Canadian production. This downward pressure on prices, together with increased costs of labour and supplies, more than offset the savings of integration made during the year.

The closing of the Dunlop industrial rubber products plant in Toronto can be at least partially attributed to low-wage imports. Dunlop was our largest customer of hose and belting products and its loss will seriously affect our sales of these products in the future.

Continuing efforts are being made to reduce costs and improve operating results. Unprofitable lines are being abandoned and investigation of new products continues.

FINANCIAL

After providing for all expenses, including depreciation of plant and equipment of \$573,880, the loss from operations was \$813,292. Income from investments, recovery of income taxes and profit on the sale of investments offset this loss to the extent that the net loss for the year was \$408,985.

Working capital increased during the year, largely as the result of the sale of investments and treasury stock. At December 31, 1969, working capital stood at \$1,818,973.

EMPLOYEES

The Directors express their appreciation for the employees who continued to serve loyally, often under very trying conditions.

On behalf of the Board,

E. DOUGLAS JAMES,

President.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF COSMOS IMPERIAL MILLS, LIMITED:

We have examined the consolidated balance sheet of Cosmos Imperial Mills, Limited and its wholly-owned subsidiaries as at December 31, 1969 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Hamilton, Canada,
March 17, 1970.

COSMOS IMPERIAL MILLS, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1969

(1) OPERATIONS —

The company purchased the textile operations (excepting the narrow fabrics division) of The Hamilton Cotton Company, Limited (referred to subsequently as Hamilton Cotton) as of March 22, 1969, including the inventories, accounts receivable and certain other assets and leased the land, buildings and equipment. The purchase price was discharged by the assumption of certain current liabilities and completion of the following transactions:

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| (1) Issue and sale of 100,000 common shares of the company at \$10 per share to Hamilton Cotton | \$ 1,000,000 |
| (2) Issue to Hamilton Cotton of a short term note for \$1,500,000 which was subsequently redeemed by delivery of the company's investment in and advances to North America Business Equipment Limited. | 1,500,000 |
| (3) Delivery for cancellation of 1,000 6% cumulative redeemable convertible preferred shares Series "B" of Hamilton Cotton | 100,000 |
| (4) Payment of cash | 1,135,320 |
| Total of assets acquired less liabilities assumed | <u>\$ 3,735,320</u> |

(2) INVENTORIES —

The inventories are valued at the lower of cost and net realizable value and consist of the following:

| | 1969 | 1968 |
|----------------------------|---------------------|---------------------|
| Raw materials | \$ 1,369,637 | \$ 485,872 |
| Work in process | 1,256,941 | 435,612 |
| Finished goods | 2,446,271 | 882,449 |
| Factory supplies | 23,973 | 34,589 |
| | <u>\$ 5,096,822</u> | <u>\$ 1,838,522</u> |

(3) INVESTMENT IN AND ADVANCES TO OTHER COMPANIES —

During the year the company disposed of its investment in North America Business Equipment Limited for \$1,500,000 (see note 1) and realized \$44,868 on its investment in Technamations Inc. The profit on these transactions has been included in the statement of income as an extraordinary item.

COSMOS IMPERIAL MILLS, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1969

(4) FIXED ASSETS —

The major categories of fixed assets are as follows:

| | December 31, 1969 | | | Net book value December 31, 1968 |
|-----------------------------------|---------------------|-----------------------------|--------------------|-------------------------------------------|
| | Cost | Accumulated depreciation | Net book value | |
| Land | \$ 80,251 | — | \$ 80,251 | \$ 80,251 |
| Leasehold improvements | 92,572 | \$ 10,973 | 81,599 | 34,775 |
| Buildings | 4,023,216 | 1,524,905 | 2,498,311 | 2,633,641 |
| Machinery and equipment | 6,756,095 | 3,278,417 | 3,477,678 | 3,668,487 |
| | <u>\$10,952,134</u> | <u>\$4,814,295</u> | <u>\$6,137,839</u> | <u>\$6,417,154</u> |

Leasehold improvements are amortized on the straight-line basis over the terms of the leases.

Buildings are depreciated on the declining balance method at varying rates of 4% to 10%.

Machinery and equipment is depreciated on the straight-line basis using a rate of 7½% per annum except for automotive equipment which is depreciated on the declining balance method using a rate of 30% per annum.

(5) BANK INDEBTEDNESS —

The bank loan is secured by a general assignment of book debts and inventories.

(6) 7% FIRST MORTGAGE SINKING FUND BONDS OF A SUBSIDIARY COMPANY —

Authorized:

| | |
|------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Series A — repayable by equal annual instalments of \$88,889 on September 30 in each of the years 1970 to 1976 inclusive | \$ 720,000 |
| Series B — repayable by equal annual instalments of \$90,000 on September 30 in each of the years 1970 to 1986 inclusive | 1,580,000 |
| | <u>\$ 2,300,000</u> |

Issued:

| | |
|---------------------------------------------------------|---------------------|
| Series A | \$ 620,000 |
| Series B. | 1,530,000 |
| | <u>2,150,000</u> |
| Less principal repayments due within one year | 178,889 |
| | <u>\$ 1,971,111</u> |

COSMOS IMPERIAL MILLS, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1969

(7) DEFERRED PROFIT ON SALE OF EQUIPMENT —

In 1964 the company sold certain equipment and leased it back for a period of eight years at an annual rental of \$188,516 payable in equal monthly instalments. Upon expiry of the initial term the lease is renewable at the option of the company for eight successive terms of one year each at substantially reduced rentals.

The profit on the sale is being taken into income on a straight-line basis over the initial term of the lease (\$135,311 per annum). The unamortized balance is included in the accompanying balance sheet under the caption "Deferred profit on sale of equipment".

(8) INCOME TAXES —

The company and its subsidiaries follow the generally accepted accounting practice of reflecting in the statement of income the amount of income taxes applicable to the income reported for the year. This differs from the amount of income taxes currently payable by reason of timing differences principally relating to differences between the amount of capital cost allowances deductible for tax purposes and the amount of depreciation recorded in the accounts. The accumulated excess (on a consolidated basis) of the amount of income taxes provided over the amounts currently payable is included in the balance sheet as "Deferred income taxes".

A subsidiary company, qualified for tax exemption on profits earned in the three years ended March 31, 1970 under Section 71A of the Income Tax Act, has recorded depreciation charges which, together with losses incurred by the parent company in 1968 and 1969, will be available for deduction from taxable income of future years within certain limitations prescribed by the Act. The consequent reduction in income taxes, if realized, would amount at current rates to \$830,000 (\$552,000 arising from 1969 operations). This reduction is not reflected in the accounts.

During the year, the company received income tax assessments for certain prior years which, if upheld, would require additional provision for taxes currently payable of \$54,000 and for deferred income taxes of \$118,000 as of December 31, 1969. Furthermore, the anticipated saving in income taxes arising from losses of 1968 and 1969 referred to above would be reduced by \$143,000 and income taxes payable on future years' profits would be increased by approximately \$260,000. No provision has been made for such increased taxes, as the company has filed notice of objection and in the opinion of management and counsel the re-assessment should be withdrawn.

(9) COMMITMENTS AND CONTINGENT LIABILITIES —

The company has leased land, buildings, machinery and equipment for varying terms up to 1989 and in some cases has an option to purchase the leased property at expiry. Rental expense for the year ended December 31, 1969 aggregated \$754,778. Rentals for existing leases will aggregate \$1,015,000 for 1970 and lesser amounts in subsequent years.

The company has guaranteed the bank indebtedness of a supplier to the extent of \$100,000.

(10) STATUTORY INFORMATION —

Remuneration received in 1969 by directors of Cosmos Imperial Mills, Limited as directors, officers or employees of the company and its subsidiaries aggregated \$75,000.

COSMOS IMPERIAL MILLS, LIMITED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS YEAR ENDED DECEMBER 31, 1969

(with comparative figures for 1968)

| | <u>1969</u> | <u>1968</u> |
|----------------------------------------------------------------------------------|---------------------|--------------------|
| Sales | \$14,805,564 | \$5,835,447 |
| Costs and expenses other than the following | 14,601,998 | 5,101,837 |
| Income from operations before the following deductions | 203,566 | 733,610 |
| Depreciation | 573,880 | 547,778 |
| Bank interest | 284,703 | 162,529 |
| Bond interest | 158,275 | 172,516 |
| | <u>1,016,858</u> | <u>882,823</u> |
| Loss from operations | 813,292 | 149,213 |
| Income from investments | 30,515 | 88,764 |
| Loss before income taxes recoverable and profit on sale of investments | 782,777 | 60,449 |
| Income taxes recoverable (note 8) | 190,000 | 186,000 |
| Net income (loss) before profit on sale of investments | (592,777) | 125,551 |
| Profit on sale of investments (note 3) | 183,792 | 75,704 |
| Net income (loss) for year | (408,985) | 201,255 |
| Retained earnings at beginning of year | 3,149,871 | 3,188,616 |
| | <u>2,740,886</u> | <u>3,389,871</u> |
| Dividends paid (30¢ per share in 1969; 60¢ per share in 1968) | 150,000 | 240,000 |
| Retained earnings at end of year | <u>\$ 2,590,886</u> | <u>\$3,149,871</u> |

COSMOS IMPERIAL MILLS, LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS, YEAR ENDED DECEMBER 31, 1969

(with comparative figures for 1968)

| | <u>1969</u> | <u>1968</u> |
|--------------------------------------------------------------------------------|--------------------|-------------------|
| SOURCE OF FUNDS: | | |
| Operations — | | |
| Net income for 1968 adjusted for items not affecting working capital | — | \$ 359,018 |
| Proceeds from sale of investments and advances | \$1,546,263 | 75,704 |
| Issue of common shares. | 1,000,000 | — |
| Special refundable tax recovered | 7,674 | 22,326 |
| Total source of funds | <u>2,553,937</u> | <u>457,048</u> |
| APPLICATION OF FUNDS: | | |
| Operations — | | |
| Loss for 1969 before profit on sale of investments | 592,777 | — |
| Add (deduct): | | |
| Depreciation | (573,880) | — |
| Deferred income taxes | 190,000 | — |
| Amortization of deferred profit on sale of equipment | 135,311 | — |
| | <u>344,208</u> | <u>—</u> |
| Purchase of fixed assets (net) | 294,564 | 651,557 |
| Repayment of long term bank loan. | 550,000 | — |
| Provision for repayment of bonds | 180,000 | 180,000 |
| Dividends | 150,000 | 240,000 |
| Total application of funds | <u>1,518,772</u> | <u>1,071,557</u> |
| INCREASE (REDUCTION) IN WORKING CAPITAL | 1,035,165 | (614,509) |
| WORKING CAPITAL AT BEGINNING OF YEAR | 783,808 | 1,398,317 |
| WORKING CAPITAL AT END OF YEAR | <u>\$1,818,973</u> | <u>\$ 783,808</u> |

COSMOS IMPERIAL MILLS, LIMITED

EXECUTIVE OFFICES,
304 MARY STREET NORTH,
HAMILTON, ONTARIO, CANADA.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of Cosmos Imperial Mills, Limited, will be held at the Sheraton-Connaught Hotel, 112 King Street East, Hamilton, Ontario, Canada, on Wednesday, the 20th day of May, 1970, at 2:30 p.m. (eastern daylight-saving time), for the following purposes:

- (a) Receiving the Annual Report of the Directors to the Shareholders and the Financial Statements for the year ended December 31, 1969;
- (b) Electing Directors;
- (c) Appointing Auditors and authorizing their remuneration;
- (d) Transacting such other business as may be properly brought before the meeting.

Shareholders who are unable to attend the Meeting in person are requested to date, sign and return the enclosed form of Instrument of Proxy in the envelope enclosed for that purpose. A copy of the annual report and consolidated financial statement is enclosed.

DATED at Hamilton, this 17th day of April, 1970.

BY ORDER OF THE BOARD OF DIRECTORS,

P. A. SOUTHALL,

Secretary.

COSMOS IMPERIAL MILLS, LIMITED

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Cosmos Imperial Mills, Limited (the Company) of proxies to be used at the Annual General Meeting of Shareholders of the Company to be held at the time and place and for the purposes set forth in the enclosed notice of meeting. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Company at nominal cost.

The total cost of solicitation will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Company. **A shareholder desiring to appoint some other person to represent him at the meeting may do so** either by inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company. The By-laws of the Company provide that a person appointed as a proxy must himself be a shareholder of the Company.

A shareholder who has given a proxy may revoke it either (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Company, or (b) as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by such proxy, by signing written notice of revocation and delivering it to the Secretary of the Company or the Chairman of the meeting.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. **In the absence of such direction, such shares will be voted for the approval of the directors, report and financial statements, the election of directors and the appointment of auditors, as stated under those headings in this circular.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting. At the time of printing this circular the management of the Company knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

VOTING SHARES

Currently the Company has outstanding 500,000 common shares without nominal or par value, each carrying the right to one vote per share. The directors and senior officers of the Company do not know of any person or company beneficially owning, directly or indirectly, shares carrying more than 10% of the voting rights attached to all shares of the Company except The Hamilton Cotton Company, Limited which owns 100,000 shares which is 20% of the 500,000 shares outstanding.

The directors have fixed May 14th, 1970, as the record date for the determination of the persons entitled to vote at the meeting and accordingly the only persons entitled to attend and vote at the meeting or to be represented thereat by proxy will be registered shareholders of record at the close of business on May 14th, 1970.

ELECTION OF DIRECTORS

The board consists of seven directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below, all of whom are now members of the board of directors and have been since the dates indicated. The management does not contemplate that any of the nominees will be unable to serve as a director but, if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Each director elected will hold office until the next Annual Meeting and until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws.

COSMOS IMPERIAL MILLS, LIMITED

INFORMATION CONCERNING NOMINEES AS DIRECTORS

| Name and Principal Occupation | Year First Became a Director | Voting Common Shares Beneficially Owned Directly or Indirectly April 17, 1970 |
|-------------------------------------------------------------------|------------------------------------|-------------------------------------------------------------------------------------|
| ALAN V. YOUNG | | |
| Chairman of the Board, The Hamilton Cotton Co., Limited | 1926 | 4966 |
| WILLIAM H. YOUNG | | |
| Chairman of the Board of the Company | 1951 | 50 |
| E. DOUGLAS JAMES | | |
| President of the Company | 1960 | 1420 |
| ROBERT N. STEINER | | |
| Senior Vice-President, A. E. Ames & Co. Limited | 1962 | 1000 |
| RONALD K. FRASER | | |
| President, Fleet Manufacturing Limited | 1967 | 1000 |
| DONALD M. CAIN | | |
| Vice-President and Resident Director of the Company | 1968 | 1515 |
| WILLIAM J. CHEESMAN | | |
| President, Canadian Westinghouse Company Limited | 1969 | 100 |

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

- (1) Aggregate direct remuneration paid or payable by the Company and its subsidiaries in the year ended December 31st, 1969, to the directors and senior officers of the Company \$132,000
- (2) Estimated aggregate cost to the Company and its subsidiaries in the year ended December 31st, 1969, of all pension or retirement benefits proposed to be paid to the directors and senior officers of the Company under existing plans in the event of retirement at normal retirement age \$ 7,877
- (3) There are no retirement allowances proposed to be paid in the future by the Company or any of its subsidiaries, pursuant to existing arrangements, to directors or senior officers of the Company (excluding payments under plans referred to in paragraph (2) and payments to be made for or benefits to be received from group life or accident insurance, group hospitalization or similar group benefits or payments).
- (4) During the year ended December 31st, 1969, the senior officers of the Company did not purchase any shares of the Company pursuant to stock options.

NOTE: No stock options for the Company's shares have been issued to any of its directors or senior officers in the last fiscal year.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the re-appointment of Clarkson, Gordon & Co., Chartered Accountants, Hamilton, as auditors of the Company, to hold office until the next Annual Meeting of Shareholders. Clarkson, Gordon & Co., have been auditors of the Company for more than five years.

P. A. SOUTHALL,
Secretary.

APRIL 17TH, 1970

